

No. 20253

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

THOMAS ORGAN Co., a California corporation,

Appellant,

vs.

JOHN A. NEAL and JOHN G. DUFFY, individually and
doing business as WORKSHOP PUBLICATIONS, a co-
partnership,

Appellees.

APPELLEES' BRIEF.

FILED

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APPELLEES' BRIEF.

I.

STATEMENT OF JURISDICTION.

The District Court had jurisdiction of this case under Title 28, Sections 1338(a) and (b) of the United States Code. Such jurisdiction is supported by the District Court's Findings of Fact of October 17, 1962 and of May 4, 1965 [Finding of Fact I] and was held to exist on the prior appeal of this case in *Neal and Duffy v. Thomas Organ Co.*, 325 F. 2d 978 (9th Cir. 1964).

The pending appeal is from the interlocutory judgment entered on May 4, 1965 in favor of plaintiffs and Appellees, John A. Neal and John G. Duffy, individually and doing business as Workshop Publications, a co-partnership (hereinafter referred to as "plaintiffs") and against defendant-Appellant, Thomas

Organ Co., a corporation (hereinafter referred to as “defendant”). This judgment may be regarded as final with respect to the adjudication of copyright infringement [Judgment, p. 2, lines 8-12] and insofar as plaintiffs are awarded the profits which defendant made from its infringement upon plaintiffs’ copyright during the period of time from March, 1959 to April 23, 1962 [Judgment, p. 2, lines 13-17], as well as a permanent injunction against defendant’s further acts of infringement [Judgment, p. 2, lines 18-24]. However, the judgment is interlocutory insofar as it provides for the retention of jurisdiction by the District Court for an accounting of profits with respect to defendant’s continued infringement upon plaintiffs’ copyright from and after April 23, 1962 until the entry of the judgment on May 4, 1965 [Judgment, p. 2, lines 25-32]. At the trial of this cause, Judge Taylor stated that such procedure would be followed in the event there should be infringement up to the time of judgment [Reporter’s Transcript, hereinafter referred to as R. T. p. 907, line 14, to p. 908, line 19; p. 1011, lines 2-5]. Accordingly, in the District Court’s Memorandum of Opinion of April 16, 1965, the Court ruled “that defendant account to the court and plaintiffs in regard to defendant’s manufacturing and sales from and after April 23, 1962 to the date of judgment herein” [Memo. Op. p. 6, lines 10-14].

Inasmuch as the accounting in regard to defendant’s continued infringement upon plaintiffs’ copyright up to and including the date of the judgment herein has not been concluded, it appears that the jurisdiction of this Court with respect to the pending appeal is under the provisions of Title 28, Section 1292(a)(1) and (4) of the United States Code.

II.

STATEMENT OF ISSUES ON APPEAL.

In *Neal and Duffy v. Thomas Organ Co.*, 325 F. 2d 978 (9th Cir. 1964), this Court held that plaintiffs' copyright in their manual of organ instructions is valid against the whole world and reversed the judgment below insofar as it had held the copyright to be invalid, and vacated that part of the judgment concerning unfair competition. This Court approved and adopted the basic Findings of Fact made and entered by the District Court (2d pp. 979-981) and remanded the case for further proceedings not inconsistent with this Court's opinion.

When this matter was again before the District Court, it was agreed between the Court and counsel to submit the case to the Court upon the record and the briefs of counsel [Memo. Op. p. 1, lines 18-22]. In this connection, defendant did not controvert any of the Findings of Fact that had theretofore been made and entered by the District Court, except defendant requested findings in regard to its defenses of express or implied license or shop rights [*id.* p. 2, lines 1-5]. In response thereto, the District Court stated in its opinion: "*This Court did not and does not now find any evidence to support these defenses. The evidence is to the contrary . . .*" [*id.* p. 2, lines 5-7]. Defendant now appeals from Findings of Fact XX and XXI entered by the District Court on May 4, 1965, as follows:

. "XX. The Court finds that plaintiffs did not grant defendant any express or implied license to reproduce plaintiffs' course of organ instruction.

"XXI. None of the evidence introduced at trial established that defendant had any shop right or any other implied license by operation of law to reproduce plaintiffs' course of organ instruction."

The only other issue to which defendant addresses this appeal is the District Court's Finding of Fact XVIII, as follows:

“XVIII. The Court finds that defendant's records have no purpose when separated from defendant's printed instructional manual and it is only the course as a whole that has any substantial value. The Court further finds that defendant's profit must be attributed to the sale of the course as a whole and the profits cannot be apportioned since none were, and could not have been, derived from the sale of the records alone.”

While defendant's appeal is thus limited to its attack upon Findings of Fact XVIII, XX and XXI, defendant apparently did not want the Reporter's Transcript of the trial of this case on April 12, 13, 16, 17, 18, 19, 20, 23 and 24, 1962 to be part of the record on appeal. Furthermore, defendant has not in any way controverted Findings of Fact II, III, IV, V, VI, VII, VIII, IX, X, XI, XII, XIII, XIV, XV, XVI, XVII, XIX or XXII made and entered by the District Court on May 4, 1965.

Plaintiffs did request the inclusion of the Reporter's Transcript as part of the record on this appeal (Appellees' Counter Designation of Record on Appeal) and plaintiffs shall hereafter endeavor to show that Findings XVIII, XX and XXI are supported by the evidence adduced at trial and that these Findings are in conformity with the law under all of the facts and circumstances of this case.

III.
SUMMARY OF ARGUMENT.

POINT A.

THE DISTRICT COURT DID NOT ERR IN FINDING THAT DEFEDANT DID NOT HAVE ANY EXPRESS OR IMPLIED LICENSE OR SHOP RIGHT OR ANY OTHER IMPLIED LICENSE BY OPERATION OF LAW TO REPRODUCE PLAINTIFFS' COURSE OF INSTRUCTIONS.

1. Plaintiffs did not grant defendant any express license to reproduce their work.
2. Defendant is not entitled to plaintiffs' copyright or any right to reproduce plaintiffs' instruction course under or by virtue of the California Labor Code.
 - (a) An employer cannot claim any proprietary rights in the intellectual productions of an employee that were made prior to his employment.
 - (b) Plaintiffs were independent contractors and not the employees of defendant.
 - (c) The express agreement of the parties was that plaintiffs were to be copyright proprietors of their course and have and retain control and approval over any reproduction of it.

3. Defendant does not have any implied license or shop right to reproduce plaintiffs' course of instructions.
 - (a) A shop right does not exist where the "invention" was made prior to the employment relationship.
 - (b) A shop right does not exist in the "invention" of independent contractors who sell products embodying the "invention" to a purchaser of the same at a negotiated sales price.
 - (c) Since a shop right is an implied license, it follows that such a license would not be implied where its existence is negated by an express agreement to the contrary.
4. Defendant did not have an equitable right akin to a shop right to reproduce plaintiffs' copyrighted work despite the express terms of the contract of the parties to the contrary.

POINT B.

THE DISTRICT COURT DID NOT ERR IN AWARDING PLAINTIFFS ALL OF DEFENDANT'S NET INFRINGING PROFITS UNDER THE FACTS AND CIRCUMSTANCES OF THIS CASE.

1. The evidence supports Finding XVIII that defendant's records have no purpose when separated from defendant's printed instruction man-

ual and it is only the course as a whole that has any substantial value and that defendant's profit must be attributed to the sale of the course as a whole and that the profits cannot be apportioned since none were, and could not have been, derived from the sale of the records alone.

2. Where the value of a work depends upon its completeness and would be useless without the copyrighted material contained therein, the profits resulting from the sale of the infringing work as a whole are properly awarded to the copyright proprietor.
3. Defendant is not entitled to any apportionment of profits in this case because (i) defendant did not contribute material to its infringing course which produced any of defendant's profits, and (ii) the evidence is insufficient to provide any fair basis of division so as to give plaintiffs all the profits that can be deemed to have resulted from the use of what belongs to them.
4. The trial court is given broad discretion to award proven profits or statutory damages upon all of the facts and circumstances of the case as developed at trial.

IV.
ARGUMENT.

POINT A.

THE DISTRICT COURT DID NOT ERR IN FINDING THAT DEFENDANT DID NOT HAVE ANY EXPRESS OR IMPLIED LICENSE OR SHOP RIGHT OR ANY OTHER IMPLIED LICENSE BY OPERATION OF LAW TO REPRODUCE PLAINTIFFS' COURSE OF INSTRUCTIONS.

1. Plaintiffs Did Not Grant Defendant Any Express License to Reproduce Their Work.

Defendant erroneously asserts that plaintiffs expressly agreed that defendant had the right to manufacture plaintiffs' work itself or procure it from other sources (Deft. Op. Br. p. 23).

This contention is completely refuted by the District Court's uncontroverted finding that "In August 1957, plaintiffs, as Workshop Publications, entered into an oral agreement with defendant whereby it was agreed:

* * * *

'That plaintiffs were to have and retain control and approval over any reproduction of their said course.' "

[Finding of Fact VIII.]

Plaintiffs at no time approved defendant's reproduction of their course; nor did plaintiffs give defendant any right to manufacture plaintiffs' work itself or by others [R. T. p. 135, line 7, to p. 136, line 22]. The fact is that plaintiffs notified defendant in writing that defendant's reproduction of their copyrighted work would result in legal action [Finding of Fact XV; R. T. p. 71, line 19, to p. 72, line 13; p. 312, lines 3-15].

Defendant furthermore erroneously asserts that plaintiffs expressly or impliedly permitted defendant to use whatever rights they have in their course of instruction by the inclusion of a fifty cent royalty as part of the original pricing formula under which plaintiffs sold their course to defendant (Deft. Op. Br. pp. 24-35).

Firstly, it may be observed that the pricing formula was replaced by a flat purchase price per 1,000 units of plaintiffs' course in December, 1957 [Finding of Fact IX]. More significantly, defendant's purchase of those courses from plaintiffs did not give defendant any right or license, express or implied, to reprint or otherwise reproduce any of plaintiffs' copyrighted materials contained therein. The only right that defendant got in purchasing courses of instruction from plaintiffs for a purchase price however computed was to resell or otherwise dispose of those particular courses. This fundamental principle is stated in Section 27 of the Copyright Act which provides that :

“The copyright is distinct from the property in the material object copyrighted, and the sale or conveyance, by gift or otherwise, of the material object shall not of itself constitute a transfer of the copyright, nor shall the assignment of the copyright constitute a transfer of the title to the material object; but nothing in this title shall be deemed to forbid, prevent or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.”

“Thus,” says Professor Nimmer of Section 27 of the Act, “*the sale or gift of a tangible copy of a work in statutory copyright will not in and of itself constitute an assignment or license of the copyright in such work*” (Nimmer on Copyright, pp. 539-540).

Harrison v. Maynard, Merrill & Co., 61 Fed. 689 (C.C.A. 2d, 1894) at page 691:

“[T]he right to restrain the sale of a particular copy of the book by virtue of the copyright statutes has gone when the owner of the copyright and of that copy . . . has conferred an absolute title to the copy upon a purchaser . . . The exclusive right to vend the particular copy no longer remains in the owner of the copyright by the copyright statutes. *The new purchaser cannot reprint the copy. He cannot print or publish a new edition of the book;* but, the copy having been absolutely sold to him, the ordinary incidents of ownership in personal property, amongst which is the right of alienation, attach to it.” (Emphasis supplied).

The case of *United States v. Wells*, 176 F. Supp. 630 (S.D. Texas, 1959), cited in Defendant’s Opening Brief at page 21, is an application of Section 27 of the Act to a criminal prosecution for willful infringement of copyright in which the government secured a conviction proving that defendant sold copies of Aerial Survey Maps without the approval of the copyright proprietor. The conviction was reversed because of evidence that the copyright proprietor had granted 107 licenses to third parties expressly permitting such licensees to reproduce the copyrighted work. Therefore, if the defendant had acquired his copies of the maps from a licensee who had the lawful right under his license to make copies, it could not be a copyright infringement for the defendant to sell such lawful copies under Section 27 of the Act.

The *Wells* case is inapplicable to the case at bar in that plaintiffs did not grant defendant any license to

reproduce plaintiffs' work and the copies manufactured by defendant were not "lawfully obtained" within the meaning of Section 27 of the Copyright Act.

It is submitted that defendant is not accorded any license whatever to reproduce plaintiffs' copyrighted work under Section 27 of the Copyright Act or under the agreement of the parties.

2. Defendant Is Not Entitled to Plaintiffs' Copyright or Any Right to Reproduce Plaintiffs' Instruction Course Under or by Virtue of the California Labor Code.

(a) An Employer Cannot Claim Any Proprietary Rights in the Intellectual Productions of an Employee That Were Made Prior to His Employment.

Defendant contends that it is entitled to ownership of or proprietary rights in plaintiffs' copyright under Section 2860 of the California Labor Code (Deft. Op. Br. pp. 29-30). In constructing this argument, defendant erroneously asserts that plaintiffs created, wrote and put together their course of organ instructions as employees of defendant (Deft. Op. Br. pp. 31-32). It is further asserted that "throughout the creation of the course plaintiffs conferred with employees of Thomas, and, in fact, received contributions from them as to the content of the course" (Deft. Op. Br. p. 32).

These contentions are patently inconsistent with the District Court's Findings of Fact III, IV, V, VI and VII, the substance of which is that plaintiff Duffy created, originated and wrote his course of instructions *prior to any business or dealing relationship with defendant*; and furthermore that plaintiffs adapted Duffy's course of instruction to defendant's organ

prior to entering into any contractual relationship with defendant. Moreover, it is not true that defendant's employees made contributions to the content of plaintiffs' course [R. T. p. 344, lines 4-23; p. 346, lines 20-25; p. 351, lines 9-14; p. 397, line 22, to p. 398, line 25; p. 416, line 5, to p. 417, line 7; p. 711, line 1, to p. 716, line 17]. In view of the fact that plaintiffs' course of instruction and the adaptation thereof to defendant's organ were in existence prior to any contractual relationship between plaintiffs and defendant, it is submitted that defendant cannot claim the copyright thereof or any proprietary rights therein under the provisions of the California Labor Code, Section 2860.

(b) Plaintiffs Were Independent Contractors and Not the Employees of Defendant.

When California Labor Code Section 2860 is read together with Section 3000 of the Labor Code, quoted in part in Defendant's Opening Brief at page 29, it is clear that persons engaged in "an independent calling", or independent contractors, are excluded from the provisions thereof. In the latter regard, an independent contractor is defined in *S. A. Gerrard Co. v. Industrial Acc. Com.*, 17 Cal. 2d 411 (1941) at pp. 413-414 as follows:

"An independent contractor is 'one who renders service in the course of an independent employment or occupation, following his employer's desires only in the results of the work, and not the means whereby it is to be accomplished'. (*Moody v. Industrial Acc. Com.* 204 Cal. 668, 670 [269 Pac. 542, 60 A.L.R. 299]; Restatement, Agency, Sec. 2.) On the other hand, the relationship of

master and servant or employer and employee exists whenever the employer retains the right to direct how the work shall be done as well as the result to be accomplished. (Press Pub. Co. v. Industrial Acc. Com. 190 Cal. 114 [210 Pac. 820]; Winther v. Industrial Acc. Com. 16 Cal. App. 2d 131 [60 Pac. (2d) 342]; Restatement, Agency, Sec. 2). But this rule requires that the right to exercise complete or authoritative control, rather than mere suggestion as to detail, must be shown.”

Applying the foregoing definitions to the case at bar, plaintiffs were unquestionably independent contractors in all of their dealings with defendant. Plaintiffs were doing business as Workshop Publications, a co-partnership [Finding of Fact II]. Plaintiffs’ partnership entered into the agreement to manufacture and sell their products to defendant [Finding of Fact VIII]. Defendant was only interested in buying completed units of the course from plaintiffs [R. T. p. 90, line 17, to p. 91, line 4]. Neither of the plaintiffs had an office at defendant’s plant or received any payroll checks or wages from defendant [R. T. p. 58, lines 5-20; p. 347, lines 1-10]. Duffy adapted his course to defendant’s organ at his own home [R. T. p. 57, line 15, to p. 58, line 1]. The recordings were made by Workshop Recordings, a sole proprietorship of plaintiff Neal, under license from the American Federation of Musicians [R. T. p. 108, line 16, to p. 110, line 7].

As independent contractors, plaintiffs retained the copyright and all proprietary rights in their course of instructions. The situation here is quite analogous to *Hartfield v. Hersfeld*, 60 F. 2d 599 (S.D. N.Y. 1932), where plaintiff compiled and published a com-

mercial code for use by stockbrokers, called "Hartfield's Wall Street Code." In 1905 plaintiff entered into a contract with defendants' brokerage house whereby plaintiff agreed to produce a special edition of its code for defendants, for which defendants were to pay plaintiff the sum of \$1,000. Plaintiff adapted its code for defendants' use, copyrighting the work in plaintiff's name under the title "Herzfeld & Stern, Bankers & Brokers, New York." Thereafter, for a period of some years, plaintiff supplied defendants with special editions of the code, each copy bearing plaintiff's copyright notice and all of which were accepted by defendants without objection. Then defendants produced a code themselves which was copied from the original work prepared by plaintiff for defendants' special use in 1905. In plaintiff's action for copyright infringement, defendants asserted that they had the right to make copies of the work that had been prepared expressly for defendants' use, essentially the same argument that defendant makes here. The court rejected defendants' contention, stating at page 600:

"The one issue which the defendants raise is whether they did not have the right to make copies of the 1905 code which had been prepared expressly for them. This would depend entirely upon what was the mutual intention of the parties at the time of the contract. * * * Not only did [plaintiff] register the copyright in his own name, but that fact was plainly printed in each of the copies which he forwarded to [defendants] and which they used for several years without objection. Under all the circumstances, I have not the slightest doubt but that the mutual intention of the parties was that plaintiff retained the sole right to copy the

plaintiff's special code and to make such profits as might arise in the future from selling new copies of it to the defendants."

Also see:

W. H. Anderson & Co. v. Baldwin Law Publishing Co., 27 F. 2d 82 (6th Cir. 1928).

- (c) **The Express Agreement of the Parties Was That Plaintiffs Were to Be Copyright Proprietors of Their Course and Have and Retain Control and Approval Over Any Reproduction of It.**

Even if plaintiffs had been the employees of defendant instead of independent contractors and even if plaintiffs' course had been created during the term and within the scope of such employment, defendant still would not be entitled to plaintiffs' copyright or any right or license to reproduce plaintiffs' course. Any rights that an employer may obtain in his employee's intellectual production by virtue of the employment relationship are subordinate to the terms and provisions of an express agreement between the parties on that subject. This basic rule is stated in 18 C.J.S., Copyright and Literary Property, at p. 185 as follows:

"The intention of the parties is decisive as to whether or not the employer or the employee is entitled to copyright the works of an employee * * *. *Where there is an express agreement, its terms will of course govern. Where there is no express agreement, the intention of the parties must be determined from the attendant circumstances.*" (Emphasis supplied).

For example, in *Wells v. Columbia Broadcasting System, Inc.*, 308 F. 2d 810 (9th Cir. 1962), Orson

Wells employed Howard Koch to write the radio script for the program called "The War of the Worlds". The agreement of the parties was that Wells had the right to use the script on a radio broadcast in 1938, but Koch retained all other rights in it. In 1957, Koch granted CBS the right to use the script in a television play entitled "The Night America Trembled". Wells brought an action of invasion of his alleged common law copyright against CBS and others. It was held that under the contractual arrangements between Wells and Koch, the copyright in the script did not belong to Wells.

Zahler v. Columbia Pictures Corp., 180 Cal. App. 2d 582 (1960) relied upon by defendant (Deft. Op. Br. pp. 32-33), is perfectly consistent with the rule that an agreement between an employer and an employee will be controlling as to ownership of and rights in the employee's work product.

In *Zahler*, plaintiff's deceased husband composed background music for a motion picture produced by a subsidiary of defendant Columbia Pictures Corporation. He granted all rights to his music including copyright, to Irving Berlin, Inc., which in turn granted the right to ASCAP to license the use of this music on television. Plaintiff's contention that the television performance of the music as part of the sound track of the picture was without Zahler's authority, license or consent was rejected by the court as contrary to the contracts that he made expressly permitting such use. Zahler furthermore had rendered services as the conductor of the orchestra in recording the sound track music for the picture "without any reservation as to the use the producer might make of them or as to the

manner in which the completed films might be exploited". The Court held at page 589:

"Where an employee creates something as part of his duties under his employment, the thing created is the property of his employer *unless, of course, by appropriate agreement, the employee retains some right in or with respect to the product.*" (Emphasis supplied).

In the case at bar, the express agreement between plaintiffs and defendant was that plaintiffs were to be the copyright proprietors of their course and have and retain control and approval over any reproduction of it [Finding of Fact VIII].

For all of the foregoing reasons, it is submitted that defendant is not entitled to plaintiffs' copyright or any right to reproduce plaintiffs' course under or by virtue of the provisions of the California Labor Code.

3. Defendant Does Not Have Any Implied License or Shop Right to Reproduce Plaintiffs' Course of Instructions.

The authoritative definition of a shop right is set forth in *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 at page 188:

"Where a servant, during his hours of employment, working with his master's materials and appliances, conceives and perfects an invention for which he obtains a patent . . . he must accord his master a non-exclusive right to practice the invention."

The shop right doctrine relates only to inventions and patents. It has no application to literary property and copyright.

35 Am. Jur. page 525:

“With respect to the relative rights of employer and employee, a distinction is drawn between inventions and literary productions of the employee. The intention in enacting the copyright laws is to elevate and protect literary men, and no relation which exists between the author or composer of a literary production and an employer who takes no intellectual part in the production of the work can, without an assignment in writing, vest the proprietorship of it in the latter.”

All of the cases cited by defendant in support of an implied license or shop right are patent cases dealing with inventions (Deft. Op. Br. pp. 25-27; 34-38). There is no authority whatever extending such implied license or shop right to copyrighted works and related productions, and it is submitted that this doctrine is inapplicable to the case at bar.

Notwithstanding the foregoing, even if this were a patent case, defendant would not be entitled to enjoy a non-exclusive right to practice plaintiffs’ “invention” without compensation for the reasons hereinafter stated.

(a) A Shop Right Does Not Exist Where the “Invention” Was Made Prior to the Employment Relationship.

Quaker State Oil Refining Co. v. Talbot, 315 Pa. 517 (1934);

Bishop, *Employers, Employees and Inventions*, 31 So. Calif. L. Rev. 38 (1957).

The uncontroverted findings in this case establish that plaintiffs conceived, created, wrote and adapted their “invention” to defendant’s organ prior to entering into any contractual relationship with defendant [Findings of Fact III, IV, VI and VII].

(b) **A Shop Right Does Not Exist in the “Invention” of Independent Contractors Who Sell Products Embodying the “Invention” to a Purchaser of the Same at a Negotiated Sales Price.**

Since a shop right is premised upon the acquiescence of the owner of the invention in its use by others without compensation, it follows that an agreement for the sale of a product embodying the invention at a fixed purchase price is destructive of the shop right. Otherwise stated, the absence of an agreement to pay compensation for the use of an invention is an indispensable condition for the existence of a shop right.

Davis v. United States, 23 Ct. Cl. 329 (1889);

Dysart v. Remington Rand, 40 F. Supp. 596
(D.C. Conn. 1941);

Brown v. L. V. Marks & Sons Co., 64 F. Supp.
352 (D.C. Ky. 1940);

Toner v. Sobelman, 86 F. Supp. 369 (D.C.
Pa. 1949);

Wiles v. Union Wire Rope Corp., 134 F. Supp.
299 (D.C. Mo. 1955);

61 A.L.R. 2d 356 at page 385.

The findings in this case are that defendant purchased products embodying plaintiffs’ “invention” from plaintiffs doing business as Workshop Publications at a negotiated price therefor [Findings of Fact VIII, IX and X]. Insofar as defendant predicates its claim to an implied license upon advancing certain so-called “basic costs” for the manufacture of products embodying plaintiffs’ “invention” (Deft. Op. Br. pp. 28, 39), it was agreed that defendant was to recoup these manufacturing costs and expenditures in the resale of plaintiffs’

product to its distributors [Finding of Fact VIII]; and defendant did in fact recoup all such costs and went into a profit position by the time it sold 3,000 units of the work [R. T. p. 216, line 10, to p. 217, line 18; Pltf. Ex. 17].

(c) **Since a Shop Right Is an Implied License, It Follows That Such a License Would Not Be Implied Where Its Existence Is Negatived by an Express Agreement to the Contrary.**

Aero Bolt and Screw Company of California v. Iaia, 180 Cal. App. 2d 728, 739 (1960);

Toner v. Sobelman, 86 F. Supp. 369 (D.C. Pa. 1949);

Deye v. Quality Engraving and Electrotype Co., 44 Ohio Ops. 278, 100 N.E. 2d 310 (1950), reversed on other grounds, 90 Ohio App. 324, 106 N.E. 2d 584;

61 A.L.R. 2d 356 at page 384.

The *Aero Bolt* case, *supra*, at page 739, quotes with approval from *Deye, supra*:

“. . . Parties may contract as they wish and it is entirely within the rights of an employer to contract away a ‘shop right’ which would arise under equitable principles if no agreement were made. *An express agreement supersedes an implied right which would come into existence if the parties remain silent.*” (Court’s Emphasis).

In the case at bar, the express agreement of the parties negates the existence of any implied license or shop right for the two-fold reason that defendant agreed to pay plaintiffs compensation for the purchase of prod-

ucts embodying the “invention” and defendant furthermore agreed not to reproduce the “invention” without the approval of plaintiffs [Finding of Fact VIII].

4. Defendant Did Not Have an Equitable Right Akin to a Shop Right to Reproduce Plaintiffs’ Copyrighted Work Despite the Express Terms of the Contract of the Parties to the Contrary.

In recent years, an implied license in the nature of a shop right has been extended to situations where an employer-employee relationship does not exist but where rules of equitable estoppel are applicable. In such cases, it has been held that the shop right is but a phase of the doctrine of estoppel and that an equitable license will arise where the owner of an invention acquiesces in its use by another without any demand for compensation and without notifying the user of any restriction of his right to continue to use the invention.

Kierulff v. Metropolitan Stevedore Co., 315 F. 2d 839 (9th Cir. 1963);

Lukens Steel Co. v. American Locomotive Co., 197 F. 2d 939 (2d Cir. 1952);

Gate-Way v. Hillgren, 82 F. Supp. 546 (S.C. Cal. 1949).

Defendant cites *Lukens*, *Gate-Way* and other such cases urging them as authority for the imposition of an implied license in the case at bar (Deft. Op. Br. pp. 26-27, 36-38) but does not mention the more recent *Kierulff* case in the Ninth Circuit.

None of these cases involve copyrights or literary property. But even if the principle of implied license by acquiescence could be extended to copyrighted works, this is not the case for it. The parties here dealt at

arm's length as sellers (plaintiffs) and buyer (defendant) of copyrighted materials created and owned by sellers under the express oral agreement of the parties [Finding of Fact VIII; R. T. p. 90, line 21, to p. 91, line 7; p. 193, lines 5-19]. At no time did plaintiffs acquiesce in defendant's use of their property without demand for compensation, and in fact, payments were made by defendant. Nor did plaintiffs fail to assert their proprietary rights zealously when defendant demanded delivery of plaintiffs' printing plates and master recording materials to defendant for defendant's use of the same in the production and sale of their course of instruction without plaintiffs' approval [Finding of Fact XV]. In short, there is no basis whatever for the imposition of an implied license based upon any acquiescence on the part of plaintiffs.

As a matter of fact, plaintiffs are the ones who were misled in this case in their misplaced reliance upon defendant's representations that plaintiffs' course would receive national advertising and that defendant would limit its distribution of the course so as to enable plaintiffs to engage in independent sales activity and make the profits therefrom; that defendant was not to make any profit itself on the course but only recoup its costs and expenses [Finding of Fact VIII; R. T. p. 194, line 21, to p. 195, line 10]. According to the testimony of William Henry Cormier, the Director of Sales for defendant from 1957 to 1958, defendant at no time restricted the sales of quantities or rates of plaintiffs' course to distributors [R. T. p. 217, lines 20-23]. From the very inception of the program, defendant made an all-out effort to sell as many courses of instruction as it could [R. T. p. 217, line 24, to p. 218, line 2].

At no time did defendant advise distributors, retailers or dealers to order additional units from plaintiffs [R. T. p. 218, lines 3-13].

Plaintiffs were in the position of captive manufacturers with the profits that they anticipated from outside sales being diverted directly to defendant. When plaintiffs learned these facts and requested an increase in the price for their course, defendant appropriated plaintiffs' work and all of the profits therefrom to its own use [See Findings of Fact XV, XVI and XVII].

POINT B.

THE DISTRICT COURT DID NOT ERR IN AWARDING PLAINTIFFS ALL OF DEFENDANT'S NET INFRINGING PROFITS UNDER THE FACTS AND CIRCUMSTANCES OF THIS CASE.

1. The Evidence Supports Finding XVIII That Defendant's Records Have No Purpose When Separated From Defendant's Printed Instruction Manual and It Is Only the Course as a Whole That Has Any Substantial Value and That Defendant's Profit Must Be Attributed to the Sale of the Course as a Whole and That the Profits Cannot Be Apportioned Since None Were, and Could Not Have Been, Derived From the Sale of the Records Alone.

Plaintiff Duffy created and wrote a progressive course of organ instruction that starts at an elementary level and becomes more comprehensive as it proceeds [R. T. p. 324, lines 17-20]. The most important part of Duffy's course is the chord sequence melody in different forms and in all of the keys [R. T. p. 323, lines 2-9; p. 491, line 22, to p. 492, line 4; p. 178, line 23, to p. 179, line 15]. This is a device to assist

the student to learn the relationship of the chords; and it appears in Duffy's copyrighted manual in some 35 different forms [R. T. p. 323, lines 10-13; p. 324, lines 8-11; p. 328, line 23, to p. 340, line 13; p. 342, lines 14-18; p. 361, line 10, to p. 362, line 13; plaintiffs' Exs. 1 and 2]. In this manner, as the course progresses the chords are extended [R. T. p. 483, line 18, to p. 484, line 19].

Plaintiff Duffy's testimony is uncontradicted that the chord sequence materials are the "essential part", the "basic part", "the heart" of the instructions and the course and that all of the rest of the material is of secondary significance [R. T. p. 323, lines 2-9; p. 372, lines 6-12; p. 491, line 22 to p. 492, line 4]. The records are used in conjunction with the manual so that the student sees the material in the book and then hears it recorded [R. T. p. 489, lines 16-19]. The performance on the records could have been accomplished by any organist of average ability and adds little or no value thereto [Finding of Fact XIX; Pltf. Ex. 4].

Defendant's infringing instructional manual is substantially identical in form and content to plaintiffs' copyrighted manual and was copied therefrom [Finding of Fact XVI]. Defendant's recorded materials are no more than examples of the lessons in its infringing manual [R. T. p. 229, lines 10-23], reproducing the contents of plaintiffs' records with "minor changes" [R. T. p. 268, lines 5-11; Finding of Fact XVI]. The recorded performances reproduced and duplicated on defendant's records add little or no value to the same [Finding of Fact XVIII].

While defendant argues in its Specification of Errors that its printed instructional manual and records

are “separate and distinct components” (Deft. Op. Br. p. 7), the uncontradicted evidence at trial is that all of defendant’s sales were of the instruction manual and the records together as a single unit [R. T. p. 958, line 18, to p. 965, line 25; p. 986, line 16, to p. 999, line 18; Pltf. Ex. 19; Deft. Ex. “W”]. In defendant’s own words:

“The instruction book and the album were used as one unit, wherein a lesson plan was set forth in the printed instruction manual, which was coordinated with the record albums in teaching a prospective student how to play a Thomas organ, which is a musical instrument sold and distributed by Thomas.” (Deft. Op. Br. p. 3).

Based upon the entire record in this case, Judge Taylor stated in his Memorandum of Opinion:

“While it is true that the copyright protection does not extend to the phonograph records, which comprise a part of the course, this court found in Finding of Fact XVIII that the records had no purpose when separated from the instruction manual and that only the course as a whole had any substantial value. This uncontroverted finding was also approved by the Appellate Court. Defendant’s profit must be attributed to the sale of the course as a whole and the profit can not be apportioned since none were, and could not have been, derived from the sale of the records alone. See *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390 (1940).” (Memo. Op. p. 3, lines 19-32).

It is submitted that the District Court’s Finding of Fact XVIII is supported by the evidence in this case

and that the court did not commit any error in awarding plaintiffs all of the net profits derived by defendant from the sale of its infringing course of organ instructions. It will hereafter be shown that the District Court's decision in this regard is supported by substantial authority.

2. **Where the Value of a Work Depends Upon Its Completeness and Would Be Useless Without the Copyrighted Material Contained Therein, the Profits Resulting From the Sale of the Infringing Work as a Whole Are Properly Awarded to the Copyright Proprietor.**

In *Callaghan v. Myers*, 128 U.S. 617 (1888), the defendants infringed upon copyrighted elements in plaintiff's law reports such as the headnotes and indices but not the actual judicial opinions. The non-copyrighted opinions in defendants' infringing work could not be used without plaintiffs' copyrighted materials and the value of defendants' work depended upon its completeness and integrity. The court held that defendants' profits resulted from the sale of the infringing work as a whole and that the copyright proprietor was entitled to recover all of defendants' profits stating, at pages 665, 666:

“In regard to the general question of the profits to be accounted for by the defendants, as to the volumes in question, the only proper rule to be adopted is to deduct from the selling price the actual and legitimate manufacturing cost. *If the volume contains matter to which a copyright could not properly extend, incorporated with matter proper*

to be covered by a copyright, the two necessarily going together when the volume is sold, as a unit, and it being impossible to separate the profits on the one from the profits on the other, and the lawful matter being useless without the unlawful, it is the defendants who are responsible for having blended the lawful with the unlawful, and they must abide the consequences, on the same principle that he who has wrongfully produced a confusion of goods must alone suffer. * * * The present is one of those cases in which the value of the book depends on its completeness and integrity. It is sold as a book, not as the fragments of a book. In such a case, as the profits result from the sale of the book as a whole, the owner of the copyright will be entitled to recover the entire profits on the sale of the book, if he elects that remedy." (Emphasis supplied).

Similarly, in *Belford Clarke & Co. v. Scribner*, 144 U.S. 488 (1892), plaintiff was awarded all of the profits that defendants derived from the sale of an infringing cookbook that incorporated many of the recipes and the general arrangement of plaintiff's copyrighted work.

In *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390 (1940), the court approved the principles of *Callaghan and Belford* but held that those cases were distinguishable from the situation then before the Court. (309 U.S. at p. 402). In *Alfred Bell & Co., Ltd. v. Catalda Fine Arts, Inc.*, 86 F. Supp. 399 (S.D. N.Y. 1949), modified on other grounds in 191 F. 2d 99 (2d

Cir. 1951), where defendants infringed upon plaintiff's copyright in mezzotint engravings of public domain works by photo-lithographic reproductions thereof, the court awarded plaintiff all of defendants' net profits.

In *Sammons v. Larkin*, 38 F. Supp. 649 (D. C. Mass. 1940), modified on other grounds in 126 F. 2d 341 (1st Cir. 1942), defendant's biographical reference work called "Who's Who in Massachusetts" infringed upon certain of the biographies in plaintiff's book entitled "Who's Who in New England." The Court, in awarding plaintiff all of defendant's profits, held, at page 654:

"The evidence showed that of the 7700 biographies in 'In Massachusetts', about 4000 were in 'In New England.' There was a comingling of gains in Larkin's book but he introduced no evidence to show what portion of the profits from his own book were due to his own efforts. 'Where there is a comingling of gains, he must abide the consequences, unless he can make a separation of the profits so as to assure to the injured party all that justly belongs to him.' *Sheldon, et al. v. Metro-Goldwyn Pictures Corp., et al.*, supra, 309 U.S. page 406, 60 S. Ct. page 687, 84 L. Ed. 825. See *Belford, Clarke & Co. v. Scribner*, supra, and *Callaghan, et al. v. Myers*, supra."

It is submitted that this case falls within the rationale of the foregoing authorities and that the District Court properly awarded plaintiff the net profits that defendant derived from the sale of its infringing course of organ instructions.

3. Defendant Is Not Entitled to Any Apportionment of Profits in This Case Because (i) Defendant Did Not Contribute Material to Its Infringing Course Which Produced Any of Defendant's Profits, and (ii) the Evidence Is Insufficient to Provide Any Fair Basis of Division so as to Give Plaintiffs All the Profits That Can Be Deemed to Have Resulted From the Use of What Belongs to Them.

In each of the cases upon which defendant relies for an apportionment of profits, the infringer had contributed substantial profit-making elements to the infringing work so as to enable the court to allocate the infringer's profit between the use of the copyrighted material and the use of the material contributed by the infringer.

Thus, in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390 (Deft. Op. Br. pp. 14, 16, 17), plaintiffs established copyright infringement of their play "Dis-honored Lady" by defendant's motion picture "Letty Lynton" and proved that defendant's net profits from the film amounted to \$587,604.37. Defendant, however, established that 80% or more of its profits were derived by reason of its creative contributions to the film and by distinct profit-making features supplied by defendant such as popular actors, scenery and expert producers and directors. Under these circumstances, the court allocated 20% of defendant's net profits to the use of plaintiff's copyrighted material, the remainder thereof being allocable to the material that the infringer had supplied.

Twentieth Century-Fox Film Corp. v. Stonesifer, 140 F. 2d 597 (9th Cir. 1944) (Deft. Op. Br. p. 16) was similarly a motion picture infringement of a play and

the court apportioned defendant's profits as in *Sheldon*, stating that it would be unjust to do otherwise where the infringer's labor and artistry had contributed to such profits (140 F. 2d at p. 584).

In *Universal Pictures Co., Inc. v. Harold Lloyd Corporation*, 162 F. 2d 354 (9th Cir. 1947) (Deft. Op. Br. pp. 15-16), defendant's 1943 motion picture called "So's Your Uncle" infringed upon plaintiff's 1931 picture called "Movie Crazy," by including a comedy sequence that constituted only 20% of the infringing picture. The court awarded plaintiff \$40,000 damages for injury to the reissue rights of plaintiff's picture as being larger in amount than the defendant's total profits allocable to such infringement.

In *Orgel v. Clark Boardman Co.*, 301 F. 2d 119 (2d Cir. 1962) (Deft. Op. Br. pp. 15, 16, 17), defendant's law book on Eminent Domain infringed upon plaintiff's book on the same subject. It was found that 35% of defendant's work, the part dealing with the subject of evaluation, was copied from plaintiff's book. On the other hand 65% of defendant's work was the original work product of defendant's author. The court allocated 50% of defendant's total profits to the use of plaintiff's material on evaluation and 50% of defendant's profits to the work of defendant's author, reasoning that such part of the commercial value of the whole work was attributable to defendant's contribution thereto (301 F. 2d at page 122).

Unlike *Sheldon v. Metro-Goldwyn Pictures Corp.*, *Twentieth Century-Fox Film Corp. v. Stonesifer*, *Universal Pictures Co., Inc. v. Harold Lloyd Corporation*, and *Orgel v. Boardman Co.*, where the infringer had contributed substantial portions and profit-making

elements to the infringing work, the defendant in the case at bar appropriated the entirety of plaintiffs' work making only "minor changes" in its records [Finding of Fact XVI]. Furthermore, in each of the foregoing cases, the court had before it sufficient evidence from which it could fairly allocate defendant's profits between the use of the copyrighted material and the material contributed by the defendant. There is no such evidence here as, indeed, there could not be because defendant did not contribute any such material to its infringing work.

Defendant's sole argument for apportionment is that the cost incurred in manufacturing its infringing instructional manual was approximately 11% of its total material costs for the entire course and contends that its profits should be allocated in accordance therewith, thus permitting defendant to retain 89% of its total net profits (Deft. Op. Br. pp. 17, 18).

According to defendant's mode of reasoning, the album cover, which cost more to manufacture than its instructional book, can be said to have produced more profits than all of the instructional material contained in the course. The mere statement of this proposition demonstrates the absurdity of defendant's approach to what it calls a "reasonable basis for apportionment" (Deft. Op. Br. p. 17).

As previously stated, the evidence in this case is uncontradicted that plaintiffs' copyrighted chord sequence materials in some 35 different forms constituted the most important part of the materials of the course and that all of the rest is of secondary significance. Moreover, since the records have no purpose when separated from the printed instructional manual and it is

only the course as a whole that has any substantial value [Finding of Fact XVIII], and defendant itself concedes that the instruction book and the album were used as one unit (Deft. Op. Br. p. 3), it is inconceivable how defendant can seriously maintain that its manufacturing costs of the instructional manual bear any relation whatever to the profits that it derived from the sale of the instruction course as a whole.

In addition, we do not know of any copyright case in which the court has apportioned profits on the basis of the cost of an infringing work. In those situations where an allocation is appropriate, the courts have attempted to evaluate the importance of plaintiffs' work as opposed to the value of defendant's contributions in producing the total profits (*Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390 (1940); *Orgel v. Clark Boardman Co.*, 301 F. 2d 119 (2d Cir. 1962)). The standard to be applied in making any such apportionment is best stated by the late Judge Learned Hand in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F. 2d 45 (C.C.A. 2d 1939) at page 51:

“[W]e must make an award which by no possibility shall be too small. It is not our best guess that must prevail, but a figure which will favor the plaintiffs in every reasonable chance of error.”
(Emphasis supplied).

Sheldon does not, of course, require an apportionment of profits in every case, as was properly stated in *Alfred Bell & Co., Ltd. v. Catalda Fine Arts, Inc.*, 86 F. Supp. 399 (S.D. N.Y. 1949) at page 410, where the court awarded plaintiff 100% of defendants' net profits.

In the case at bar, the District Court, in computing defendant's net profit in the sum of \$24,511.80, allowed defendant all of the costs that it claimed in connection with the production of its infringing organ course including the instructional manuals and the records and album in the sum of \$24,131.67, and further reduced defendant's gross proceeds in the full amount of the overhead costs claimed by defendant in the sum of \$8,382.87 (Memo. Op. p. 2, line 26, to p. 3, line 16).

It is submitted that defendant is not entitled to any further reduction of its profits by way of apportionment, for all of the reasons hereinbefore stated.

4. The Trial Court Is Given Broad Discretion to Award Proven Profits or Statutory Damages Upon All of the Facts and Circumstances of the Case as Developed at Trial.

Defendant finally contends that the trial court should have based its award on the "in lieu" provisions of the Copyright Act (Sections 101(b) and (e) of Title 17). (Deft. Op. Br. pp. 10, 11, 18-19). In this connection, defendant argues that the pricing formula under which plaintiffs originally sold courses to defendant was 10% above cost plus an additional royalty of 50c on each course purchased by defendant, and that this formula should set the maximum limit of any award to plaintiffs, citing *Szekely v. Eagle Lion Films*, 242 F. 2d 266 (2d Cir. 1957) (Deft. Op. Br. p. 19).

Szekely does not involve statutory copyright at all. The plaintiff there brought an action for invasion of common law property rights in the screenplay that he wrote and sold to defendant for \$35,000, reserving

property rights therein until paid in full. Defendant paid plaintiff only \$10,000 and proceeded to use the screenplay. The court assessed plaintiff's damages in the sum of \$25,000 and rightly so.

In copyright infringement actions, the amount for which the owner would have sold his work to defendant does not limit his right to recover defendant's infringing profits. For example, in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390 (1940), the parties had negotiated the sale for motion picture rights of plaintiff's play to defendant for the price of \$30,000, but this did not prevent plaintiff from recovering defendant's infringing profits in an amount in excess of \$100,000.

Defendant's further argument that the statutory damage provisions of Section 101(e) place limitations on plaintiffs' right to recover profits under Section 101(b) (Deft. Op. Br. p. 18) totally fails to consider the type of material recorded by defendant. These records do not contain musical compositions as such, but are rather recorded examples of the lessons in plaintiffs' copyrighted instruction manual. The provisions of Section 101(e) are expressly limited to Section 1(e) which deals only with musical compositions. These provisions do not apply to recordings of dramatic-musical compositions (Finkelstein, "Music and the Copyright Law", 10 New York Law Forum, pages 160-161 (1964)) nor do they apply to recordings of lectures and lessons or other instructional materials (Nimmer on Copyright, page 420). In short, Section 101(e) is inapplicable to the type of material involved in the case at bar.

It is well established that the trial court has discretion to base its award upon defendant's actual prof-

its or upon the statutory damage provisions of the Copyright Act. As stated in *F. W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228 (1952):

“We think that the statute empowers the trial court in its sound exercise of judicial discretion to determine whether on all the facts a recovery upon proven profits or damages or one estimated within the statutory limits is more just.”

In *Universal Pictures Co., Inc. v. Harold Lloyd Corporation*, 162 F. 2d 354 (9th Cir. 1947), this Court held, at page 378:

“The court awarded actual damages, holding the award on that basis as adequate without resorting to the use of statutory damages. We find no error in this course. Such conclusion is in accord with cases from which we quote briefly. Lloyd cites *Fargo Mercantile Co. v. Brechet & Richter Co.*, 8 Cir., 295 F. 823, 829: ‘We think election to award what are known as statutory damages in lieu of actual damages vests with the court and that it is for the court to decide what kind of damages best fits the case.’ We submit that the court made its election. In *Turner & Dahmken v. Crowley*, 9 Cir., 252 F. 749, 754, the court states: ‘The duty of the court was to award damages as justified by the nature and circumstances of the case as developed upon the trial.’

“The trial court, of course, has the advantage of having the witnesses before it. In each of its rulings the court was supported by the law, and in each of its findings the court was supported by material and relevant evidence, substantial in

character. Tested by the old equity rule or by Rule 52(a), Rules of Civil Procedure, 28 U.S.C.A. following section 723c, no reversible error is found in the case.”

It is submitted that the decision of the District Court in this case to award plaintiffs defendant's net infringing profits without resorting to the use of statutory damages was proper and just under all of the facts and circumstances developed at the trial of this cause.

Conclusion.

It is submitted that the judgment of the District Court be affirmed in all respects.

Respectfully submitted,

PASAROW & SPIEGEL,

By IRWIN O. SPIEGEL,

Attorneys for Appellees.

Certificate.

We certify that, in connection with the preparation of this brief, we have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

IRWIN O. SPIEGEL

